

Harborside Completes Acquisition of Sublime, California's Award-Winning Infused Pre-Roll Brand

Adds Sublime, a leading Brand in the Fastest Growing Category of Infused-Pre Rolls, to its Product Offering

Continues to Execute Strategic Plan to Build the Leading Vertically-Integrated California Operator

OAKLAND, Calif., July 5, 2021 /CNW/ - [Harborside Inc.](#) ("Harborside" or the "Company") (CSE: HBOR), (OTCQX: HBORF) a California-focused, vertically integrated cannabis enterprise, today announced the completion of its previously announced acquisition of Sublimation Inc. ("Sublime"), an award-winning cannabis manufacturing company located in Oakland, CA, for a total consideration of US\$43.8 million (the "Acquisition").



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"We are thrilled to complete this Acquisition and add Sublime's talent and its iconic, award-winning California brand, with an exceptional product offering and consumer following, to our growing brand portfolio," said Peter Bilodeau, Interim CEO of Harborside. "With a strong balance sheet and deep cultivation and brand building expertise, our unified company is well-positioned to support the continued growth of the Sublime brands while expanding the reach of Harborside's existing branded product portfolio in both the retail and wholesale markets."

Ahmer Iqbal, CEO of Sublime, added, "We are thrilled to officially join forces with Harborside and create a leading California house of brands. Together, we can leverage our vast production and retail capabilities to further expand the distribution of our suite of branded products. On behalf of my team, we look forward to commencing the integration process and working together to scale Harborside's reach."

Founded in 2016, Sublime is best known for its expansive line of high-potency, high-quality and affordable, Fuzzies branded pre-rolls, a leading brand of pre-rolls in the state of California, as well as vapes and roll-your-own flower kits. Since 2019, Sublime has delivered a revenue CAGR of approximately 70%, and ended 2020 with 7.9% California pre-roll market share.⁽⁴⁾ Sublime is strategically positioned for continued growth as pre-rolls are the fastest growing cannabis sub-segment within the California market since the beginning of 2020.⁽⁴⁾

Harborside expects to realize significant synergies by bringing together Sublime's brands, production capabilities and robust distribution system with the high-quality cannabis grown at the Company's Salinas, California cultivation facility which is anticipated to result in additional gross profit and EBITDA by extending the reach of Sublime, Harborside and Key branded products throughout the state of California.⁽¹⁾⁽²⁾⁽³⁾ Harborside also expects to bolster Sublime's marketing capabilities, which is expected to drive higher retail margins for the Company as an owned brand within its portfolio.⁽²⁾⁽³⁾ Finally, Harborside will seek to license the Fuzzies California lifestyle brand in additional legal recreational markets across the country, particularly those that do not currently have high potency infused products.⁽²⁾

Transaction Details

Harborside has acquired 100% of the issued and outstanding shares of Sublime (the "Sublime Shares") in exchange for a total consideration of US\$43.8 million (the "Purchase Price"). The Purchase Price comprises of approximately US\$38.4 million payable in multiple voting shares of the Company, representing 207,579.66 multiple voting shares ("MVS") of the Company based on volume-weighted average price of the subordinate voting shares of the Company (the "SVS") on the Canadian Securities Exchange (the "CSE") for the 30-days immediately preceding the date of the initial agreement and approximately US\$5.4 million in cash (of which approximately US\$3.4 million was used to repay indebtedness of Sublime). The Purchase Price represents a multiple of approximately 1.78x to the estimated \$24.6 million of standalone 2021 revenues for Sublime.

Concurrent with the closing of the Acquisition, the Company entered into a lock-up agreement with certain shareholders of Sublime (the "Locked-Up Shareholders") in respect of the MVS to be received by such shareholders pursuant to the Acquisition (the "Lock-Up Agreement"). Pursuant to the Lock-Up Agreement, the Locked-Up Shareholders agreed not to sell, assign or otherwise transfer the multiple voting shares received. The restrictions lapse in three installments with 50% of the shares released from the restrictions on the 12-month anniversary and 25% of the shares released from the restrictions on each the 15-month and 18-month anniversaries from the closing of the Acquisition, respectively.

In addition, concurrent with the closing of the Acquisition, the Company granted options (each, an "Option") to purchase an aggregate of 536,875 SVS to certain employees of Sublime, who are now employees of the Company. Each Option is exercisable into one SVS in the capital of the Company at an exercise price of \$1.78. The Options will expire five years from the date of grant and are subject to vesting conditions. All Options were granted in accordance with Harborside's equity incentive plan adopted by the Board of Directors of Harborside on June 30, 2020, and approved by shareholders on November 24, 2020 (the "Plan"). A copy of the Plan is available under the Company's SEDAR profile at www.sedar.com.

Financial and Legal Advisors

ATB Capital Markets Inc. acted as financial advisor, and Duane Morris LLP and Cassels Brock & Blackwell LLP acted as legal counsel to Harborside. PI Financial Corp. provided a fairness opinion to the Board of Directors of Harborside. VIII Eight Capital acted as financial advisor, and CGL LLP and Gowling WLG (Canada) LLP acted as legal counsel to Sublime.

Early Warning Disclosure

Immediately prior to completion of the Acquisition, Cresco Capital Partners II LLC ("Cresco") beneficially owned, and exercised control or direction over,

697,638 SVS, 35,500 MVS and 35,500 warrants to purchase MVS, representing approximately 15.49% of the issued and outstanding MVS on a non-diluted basis and approximately 26.82% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco. Assuming the conversion of all of the MVS beneficially owned, or controlled or directed, by Cresco, and that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised, Cresco beneficially owns, and exercised control or direction over approximately 18.68% of the SVS. On a fully-diluted basis, Cresco owns less than 10.0% of the issued and outstanding SVS and approximately 12.76% of the issued and outstanding SVS on an as-converted and partially-diluted basis.

The completion of the Acquisition resulted in the issuance of 207,579.66 MVS to Sublime shareholders. Cresco is entitled to a minimum of 20,570.25 MVS based on its ownership of the Sublime Shares, representing a decrease in Cresco's interest in the MVS of approximately 7.43% on a partially diluted basis, although (i) such MVS are currently held in trust on behalf of Cresco for 12 months; and (ii) Cresco will be entitled to a substantial number of additional shares under the terms of the Lock-Up Agreement and escrow arrangements amongst the former shareholders of Sublime. At this time, the total number of MVS that Cresco is entitled to is unknown but will be substantially higher than 20,570.25 MVS. Assuming Cresco is only entitled to 20,570.25 MVS, Cresco beneficially owns, and exercises control or direction over, 697,638 SVS, 91,570.25 MVS and 35,500 warrants to purchase MVS, representing approximately 12.84% of the issued and outstanding MVS on a non-diluted basis and approximately 19.39% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco. Assuming the conversion or all of the MVS beneficially owned, or controlled or directed, by Cresco, and that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised, Cresco beneficially owns, and exercises control or direction over approximately 22.50% of the SVS, representing an increase in Cresco's interest in the SVS of approximately 3.82%.

CCP Flrish Inc. ("CCPF"), Cresco Capital Partners, LLC ("CCP"), Matthew K. Hawkins ("Hawkins") and Andrew Sturner ("Sturner"), each a "joint actor" (as such term is defined in National Instrument 62-103 – *The Early Warning System and Related Take-Over Bid and Insider Reporting Issues*) of Cresco, also own, or exercise control or direction over, securities of Harborside.

CCPF owns an aggregate of 385,542 SVS, representing approximately 1.11% of the issued and outstanding SVS. CCP owns an aggregate of 96,385 SVS, representing approximately 0.28% of the issued and outstanding SVS. Hawkins owns an aggregate of 333,350 options to purchase SVS ("Options") of Harborside, representing approximately 0.95% of the SVS on a partially converted basis (assuming the exercise of all Options owned by Hawkins, and that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised). Sturner owns an aggregate of 130,000 Options, representing approximately 0.37% of the SVS on a partially converted basis (assuming the exercise of all Options owned by Sturner, and that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised). CCPF, CCP, Hawkins and Sturner did not own Sublime Shares.

As a result of the Subscription, Cresco, together with CCPF, CCP, Hawkins and Sturner, owns, or exercises control or direction over, an aggregate of 91,570.25 MVS, 1,179,565 SVS, 35,500 warrants to purchase MVS and 463,350 Options, representing approximately 19.39% of the issued and outstanding MVS on a partially-diluted basis, assuming the exercise of the warrants held by Cresco and approximately 24.40% of the issued and outstanding SVS on a partially-diluted basis, assuming (i) the conversion or all of the MVS beneficially owned, or controlled or directed, by Cresco; (ii) the exercise of the warrants held by Cresco and subsequent conversion into SVS; (iii) the exercise of all Options owned by Hawkins; and (iv) that no other securities, including those convertible into, or exercisable for, Harborside's securities, are issued, converted or exercised.

While Cresco currently has no immediate plans or intentions with respect to the securities of Harborside, depending on regulatory changes, market conditions, general economic and industry conditions, trading prices, Harborside's business, financial condition and prospects and/or other relevant factors, Cresco may develop such plans or intentions in the future and, at such time, may from time to time acquire additional securities, dispose of some or all of the existing or additional securities or may continue to hold the securities of Harborside.

A copy of the early warning report filed by Cresco will be available under Harborside's profile on SEDAR at www.sedar.com or by contacting Cresco at (254) 266-6322. Harborside's head office is located at 2100 Embarcadero, Suite 202, Oakland, California, 94606.

Cresco's head office is located at 2801 Woodside Street, Dallas, Texas, 75204.

For the latest news, activities, and media coverage, please visit the Harborside corporate website at www.investharborside.com or connect with us on [LinkedIn](#), and [Twitter](#).

About Harborside:

Harborside Inc. is one of the oldest and most respected cannabis retailers in California, operating three of the major dispensaries in the San Francisco Bay Area, a dispensary in the Palm Springs area outfitted with Southern California's only cannabis drive-thru window, a dispensary in Oregon and a cultivation/production facility in Salinas, California. Harborside has played an instrumental role in making cannabis safe and accessible to a broad and diverse community of California consumers since 2006, when it was awarded one of the first six medical cannabis licenses granted in the United States. Today, the Company holds cannabis licenses for retail, distribution, cultivation, nursery, and manufacturing. Harborside is a publicly listed company on the Canadian Securities Exchange ("CSE") trading under the ticker symbol "HBOR" and on the OTCQX Best Market under the ticker symbol "HBORF". Additional information regarding Harborside is available under Harborside's SEDAR profile at www.sedar.com.

About Sublime:

Sublimation Inc. is one of the most innovative cannabis manufacturers in California and is well known for its great tasting, high potency Fuzzies branded products. The Oakland-based company designs, manufactures and distributes pre-rolls, vape cartridges, pre-ground flower, batteries and gummies under the Sublime brand and for other branded customers. Founded in 2016, Sublime has won numerous awards for its Fuzzies infused pre-rolls and Gold vape cartridges and holds Medical and Adult-Use cannabis licenses for manufacturing and distribution. Additional information regarding Sublime can be found at www.sublimecanna.com.

Non-IFRS Measures, Reconciliation and Discussion

This press release may contain references to "EBITDA", which is a non-IFRS financial measure.

EBITDA is a measure of the Company's overall financial performance and is used as an alternative to earnings or net income in some circumstances. EBITDA is essentially net income (loss) with interest, taxes, depreciation and amortization, non-cash adjustments and other unusual items added back. This measure can be used to analyze and compare profitability among companies and industries, as it eliminates the effects of financing and capital expenditures. It is often used in valuation ratios and can be compared to enterprise value and revenue. This measure does not have any standardized meaning according to IFRS and therefore may not be comparable to similar measures presented by other companies.

There are no comparable IFRS financial measures presented in Harborside's financial statements. Reconciliations of the supplemental non-IFRS measures are presented in the Company's management's discussion and analysis for March 31, 2021. These non-IFRS financial measures are presented because management has evaluated the financial results both including and excluding the adjusted items and believes that the non-IFRS financial measures presented provide additional perspective and insights when analyzing the core operating performance of the business. The Company believes that these supplemental measures provide information which is useful to shareholders and investors in understanding our performance and may assist in the evaluation of the Company's business relative to that of its peers.

These non-IFRS financial measures should not be considered superior to, as a substitute for, or as an alternative to, and should be considered in conjunction with, the IFRS financial measures presented in the Company's financial statements. For more information, please see "Use of Non-IFRS Measures" and "Non-IFRS Measures" in the Company's management's discussion and analysis for March 31, 2021, which is available under the Company's profile on www.sedar.com.

Notes:

- (1) This is a non-IFRS reporting measure. For a reconciliation of this to the nearest IFRS measure, see "Use of Non-IFRS Measures" and "Non-IFRS Measures" in the Company's management discussion and analysis for the period ended March 31, 2021.
- (2) This is forward-looking information and based on a number of assumptions. See "Cautionary Note Regarding Forward-Looking Information".
- (3) These targets, and the related assumptions, involve known and unknown risks and uncertainties that may cause actual results to differ materially. While Harborside believes there is a reasonable basis for these targets, such targets may not be met. These targets represent forward-looking information and do not assume completion of any acquisitions. Actual results may vary and differ materially from the targets. Accordingly, investors are cautioned not to place undue reliance on the foregoing information. See "Cautionary Note Regarding Forward-Looking Information" below.
- (4) Source: BDS Analytics.

Cautionary Note Regarding Forward-Looking Information

This news release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of the applicable Canadian and United States securities legislation. To the extent any forward-looking information in this news release constitutes "financial outlooks" or "future-oriented financial information" within the meaning of applicable Canadian securities laws, the reader is cautioned not to place undue reliance on such information. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates, and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases or stating that certain actions, events or results "may" or "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements include, among other things, the benefits and synergies created by the Acquisition, including with respect to the Company's production capabilities, product offering and expectations of future profitability following the completion of the Acquisition, statements with respect to future company performance, growth, profitability, production capacity and gain in market share, new store openings, acquisition opportunities, and the Company's corporate strategy moving forward.

These forward-looking statements are based on reasonable assumptions and estimates of management of the Company at the time such statements were made. Actual future results may differ materially as forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to materially differ from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors, among other things, include: implications of the COVID-19 pandemic on the Company's operations; fluctuations in general macroeconomic conditions; fluctuations in securities markets; expectations regarding the size of the cannabis markets where the Company operates; changing consumer habits; the ability of the Company to successfully achieve its business objectives; plans for expansion; political, social and environmental uncertainties; inability to obtain adequate insurance to cover risks and hazards; employee relations; the presence of laws and regulations that may impose restrictions on cultivation, production, distribution, and sale of cannabis and cannabis-related products in the markets where the Company operates; and the risk factors set out in the Company's management's discussion and analysis for the quarter ended March 31, 2021 and the Company's listing statement dated May 30, 2019, which are available under the Company's profile on www.sedar.com. Although the forward-looking statements contained in this news release are based upon what management of the Company believes, or believed at the time, to be reasonable assumptions, the Company cannot assure shareholders that actual results will be consistent with such forward-looking statements, as there may be other factors that cause results not to be as anticipated, estimated or intended. Readers should not place undue reliance on the forward-looking statements and information contained in this news release. The Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

The Company, through several of its subsidiaries, is indirectly involved in the manufacture, possession, use, sale, and distribution of cannabis in the recreational and medicinal cannabis marketplace in the United States. Local state laws where the Company operates permit such activities however, investors should note that there are significant legal restrictions and regulations that govern the cannabis industry in the United States. Cannabis remains a Schedule I drug under the US Controlled Substances Act, making it illegal under federal law in the United States to, among other things, cultivate, distribute or possess cannabis in the United States. Financial transactions involving proceeds generated by, or intended to promote, cannabis-related business activities in the United States may form the basis for prosecution under applicable US federal money laundering legislation.

While the approach to enforcement of such laws by the federal government in the United States has trended toward non-enforcement against individuals and businesses that comply with recreational and medicinal cannabis programs in states where such programs are legal, strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under US federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company. The enforcement of federal laws in the United States is a significant risk to the business of the Company and any proceedings brought against the Company thereunder may adversely affect the Company's operations and financial performance.

This news release does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of any of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful, including any of the securities in the United States of America. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any state securities laws and may not be offered or sold within the United States or to, or for account or benefit of, U.S. Persons (as defined in Regulation S under the 1933 Act) unless registered under the 1933 Act and applicable state securities laws, or an exemption from such registration requirements is available.

The CSE has neither approved nor disapproved the contents of this news release. Neither the CSE nor its Market Regulator (as that term is defined in the policies of the CSE) accepts responsibility for the adequacy or accuracy of this release.

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